101 Larry Holmes Drive, Suite 500
Easton, PA 18042

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www.PGNTGROUP.com
info@pgntgroup.com
SIC Codes: 3530 and 5045

Quarterly Report
For the Period Ending: September 30, 2021
(the "Reporting Period")

As of September 30, 2021, the number of shares outstanding of our Common Stock was: 1,704,745

As of June 30, 2021, the number of shares outstanding of our Common Stock was: 1,704,745

As of December 31, 2020, the number of shares outstanding of our Common Stock was: 1,704,745

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark whether a Change in Control of the company has occurred over this reporting period:

Yes: ☐ No: ☒

PARAGON TECHNOLOGIES, INC.
Quarterly Report
For the Three and Nine Months Ended September 30, 2021

1) Name and address(es) of the issuer and its predecessors (if any)

The name of the issuer is Paragon Technologies, Inc. ("Paragon" or the "Company").

The Company was originally incorporated in Pennsylvania on June 18, 1958 as SI Handling Systems, Inc.

On April 5, 2000, SI Handling Systems, Inc. changed its name to Paragon Technologies, Inc.

The Company changed its state of incorporation from Pennsylvania to Delaware on November 21, 2001. The Company is active and in good standing in Delaware.

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors since inception:

None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off or reorganization either currently anticipated or that occurred within the past 12 months:

None

The address(es) of the issuer's principal executive office:

The Company's principal executive office is located at 101 Larry Holmes Drive, Suite 500, Easton, PA 18042.

The address(es) of the issuer's principal place of business:

Check box if principal executive office and principal place of business are the same address: ☒

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

Yes: ☐ No: ☒

2) Security Information

Trading symbol:	PGNT
Exact title and class of securities outstanding:	Common Stock
CUSIP:	69912T108
Par or stated value:	$1.00 per share

Total shares authorized:	4,000,000	as of September 30, 2021
Total shares outstanding:	1,704,745	as of September 30, 2021
Number of shares in the Public Float:	760,866	as of March 24, 2021
Total number of shareholders of record:	174	as of March 24, 2021

<u>Transfer Agent</u>
Broadridge Shareholder Services
Toll-free: (877) 830-4936
Toll: (720) 378-5591
Email: Kayur.Patel@broadridge.com
Address: P.O. Box 1342, Brentwood, NY 11717

Is the Transfer Agent registered under the Exchange Act? Yes: ☒ No: ☐

3) Issuance History

A. Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods: ☐

Shares outstanding as of second most recent fiscal year end: Opening Balance: December 31, 2018 Common: 1,694,745 Preferred: 0									
Date of transaction	**Transaction type (e.g. new issuance, cancellation, shares returned to treasury)**	**Number of shares issued (or cancelled)**	**Class of securities**	**Value of shares issued ($/per share) at issuance**	**Were the shares issued at a discount to market price at the time of issuance? (Yes/No)**	**Individual/Entity shares were issued to (entities must have individual with voting / investment control disclosed).**	**Reason for share issuance (e.g. for cash or debt conversion) -OR- nature of services provided**	**Restricted or unrestricted as of this filing.**	**Exemption or registration type.**
January 8, 2019	New issuance	10,000(1)	Common Stock	$1.00	No	Deborah R. Mertz	Compensation	Restricted, control security held by a former officer of the Company(2)	Unregistered(3)
Shares outstanding on date of this report: Ending Balance: September 30, 2021 Common: 1,704,745 Preferred: 0									

(1) On January 8, 2019, a stock grant of 10,000 shares was made to an employee of the Company at that time.
(2) All shares of common stock issued by the Company contain a restrictive legend since the shares are not registered with the Securities and Exchange Commission. Common stock must be held by non-affiliates for one year for the restrictive legend to be removed. Affiliates remain subject to the restrictions under Rule 144 promulgated under the Securities Act of 1933, as amended (the Securities Act), as long as they are affiliates of the Company and for 90 days thereafter.
(3) Issued pursuant to an exemption from the registration requirements of the Securities Act, as provided by Rule 701, Regulation D and/or Section 4(a)(2) of the Securities Act, as applicable.

3) Issuance History *(Continued)*

B. Debt Securities, Including Promissory and Convertible Notes

Check this box if there are no outstanding promissory, convertible notes or debt arrangements: ☐

Date of note issuance	Outstanding balance ($)	Principal amount at issuance ($)	Interest accrued ($)	Maturity date	Conversion terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of noteholder (entities must have individual with voting / investment control disclosed).	Reason for issuance (e.g. loan, services, etc.)
July 22, 2020(1)	150,000	150,000	6,687	July 22, 2050	N/A	U.S. Small Business Administration	Loan
January 17, 2021(2)	750,000	750,000	—	October 1, 2023	N/A	Scott Frederick	Loan
January 17, 2021(2)	750,000	750,000	—	October 1, 2024	N/A	Scott Frederick	Loan

(1) On July 24, 2020, SI Systems received a $150,000 loan under the Economic Injury Disaster Loan (EIDL) program. Proceeds are to be used for working capital purposes. The EIDL Loan has a term of thirty years, and the interest accrues at the rate of 3.75% per annum. Installment payments, including principal and interest, are due monthly beginning July 22, 2022 (twenty-four months from the date of the execution of the promissory note for the EIDL Loan) in the amount of $731. The balance of principal and interest is payable thirty years from the date of the promissory note. The EIDL Loan is secured by a security interest on all of SI Systems' assets.

(2) In January 2021, Ohana entered into purchase agreements for two residential properties in Las Vegas, Nevada, each for a purchase price of $900,000, consisting of an initial down payment of $150,000 and a promissory note for $750,000. For one of the properties, a down payment of $150,000 was due and paid by March 1, 2021 and a promissory note for $750,000 was executed. The interest rate on the promissory note is 0.0% and is to be repaid in eight equal installments of $93,750, with the first payment due on the first day of January 2022 and payments continuing the same day of each consecutive quarter, until October 1, 2023. For the second property, the earnest money deposit of $25,000 was made on October 8, 2021 and a down payment of $119,000 will be paid by December 1, 2021. The promissory note of $750,000 that was executed in January 2021 has an interest rate of 0.0% and is to be repaid in eight equal installments of $93,750, with the first payment due on the first day of January 2023 and payments continuing the same day of each consecutive quarter, until October 1, 2024.

4) Financial Statements

A. The following financial statements were prepared in accordance with:

☒ U.S. GAAP
☐ IFRS

B. The financial statements for this reporting period were prepared by:

Name: Deborah R. Mertz
Title: Chief Financial Officer
Relationship to Issuer: Chief Financial Officer

The unaudited financial statements for the three and nine months ended September 30, 2021 are incorporated by reference and can be found at the end of this Quarterly Report. The financial statements as of and for the three and nine months ended September 30, 2021 include: (1) consolidated balance sheets, (2) consolidated statements of operations, (3) consolidated statements of comprehensive income, (4) consolidated statements of changes in stockholders' equity, (5) consolidated statements of cash flows, and (6) notes to consolidated financial statements.

5) Issuer's Business, Products, and Services

A. Summary of the issuer's business operations

Business

Paragon Technologies and its subsidiaries engage in diverse business activities including material handling, distribution and real estate services.

Automation

SI Systems, LLC (SI Systems) is a leading supply chain and logistics manufacturer and software engineering company providing solutions to distribution centers, manufacturers, and warehouses worldwide. SI Systems provides material handling solutions that increase productivity and provide safety enhancements. Our product lines include complete order fulfillment, assembly, and product advancing systems. SI Systems also offers subsystem technologies that are easily integrated with other solutions and provides software and services for automated material handling and order processing applications.

SI Systems has two major product lines. Our Production and Assembly (PAS) product line consists of our Towline conveyance and automated guided vehicles (AGVs), which are used in manufacturing of heavy industrial products and used in warehouses to move large products. Our Order Fulfillment Solutions (OFS) product line represents our order fulfillment technologies composed of our patented A-Frame and Mobile-Matic robotic picking systems. Our OFS solutions support automated picking solutions that optimize our clients’ supply chain by reducing labor expenses, increasing order picking volume and significantly improving inventory fulfillment accuracy.

SI Systems' markets are diverse. SI Systems' customers and prospects represent leading manufacturer brands and supply chain partners in the logistics services space. SI Systems sells its products directly and through integration partners.

Approximately 66% to 69% of SI Systems' business revenue was derived from new material handling system sales during the most recent three calendar years. The system sales are generally large contracts and SI Systems' dependence on these contracts can cause unexpected fluctuations in sales volume. Various external factors affect customers' decision-making process on expanding or upgrading their current production or distribution sites. SI Systems believes that its business is not subject to seasonality, although the rate of new orders can vary substantially from month to month. Since the Company recognizes revenue using a cost-to-cost method based on the continuous transfer of control to the customer over time for its systems contracts, fluctuations in SI Systems' sales and earnings occur with increases or decreases in major installations.

5) Issuer's Business, Products, and Services *(Continued)*

A. Summary of the issuer's business operations *(Continued)*

Distribution

SED International de Colombia, S.A.S. (SEDC) distributes IT hardware products from 27 top worldwide leading IT manufacturers such as Hewlett Packard, Lenovo, Dell, Samsung, LG, Epson, Hitachi, and others. SEDC's business is divided into four main business units: Value, Transactional, Consumer Electronics, and Integrated Services.

The Value business unit focuses on enterprise sales and business projects, typically selling more specialized products that usually carry higher margins. The top products distributed by the Value unit include servers, workstations, storage, networking, high-end printers, high-end audio visual and power protection systems.

The Transactional business unit focuses on the consumer business (retail resellers / e-tailers), as well as run rate products for Value Added Resellers selling to small and medium businesses. The top products distributed by the Transactional business unit include notebook computers, desktop computers, printers, projectors, gaming, and accessories.

The Consumer Electronics business unit began in July 2019 and covers a similar segment of the market as the Transactional business unit; however, the product profile is different. Although the Consumer Electronics business unit also focuses on resellers and e-tailers, the products distributed by this business unit are not IT products, but instead televisions, sound bars, audio/visual equipment, video games, refrigerators, washers, dryers, microwaves, and cellular phones.

The services provided by the Integrated Services business unit include managed services, printing outsourcing, electronic documents management, electronic invoicing, the internet of things, and Hitachi high capacity storage solutions products.

Real Estate

Ohana Home Services, LLC (Ohana), a wholly owned subsidiary of Paragon, acquires residential real estate for income and capital appreciation purposes. Ohana intends to lease its real estate to generate positive cash flow for the foreseeable future and may seek to monetize its real estate holdings during favorable market conditions.

Investments

Paragon invests in businesses and securities under the Investment Management Policy. The Investment Management Policy sets forth the parameters and restrictions under which a portion of Paragon's cash balance may be invested in marketable securities, including U.S. Treasuries, equities of publicly traded companies, bonds, money market instruments, and other securities. Investment decisions under the parameters of the Investment Management Policy are made by Hesham Gad, Chairman and Chief Executive Officer.

5) Issuer's Business, Products, and Services *(Continued)*

A. Summary of the issuer's business operations *(Continued)*

Recent Developments

The ongoing COVID-19 pandemic has created economic uncertainty regarding our future operations across our various subsidiaries. We have experienced a slowdown in bookings, which could result in lower cash flow, revenue and operating profit in the future. In response to potential COVID-19 impacts, we have implemented cost reduction initiatives due to uncertainty. We continue to follow Centers for Disease Control and Prevention guidelines in order to ensure workplace safety for our associates. The COVID-19 pandemic continues to evolve and the extent to which COVID-19 may impact our employees, operations, customers, suppliers and financial results is unknown, as are the potential actions of people and governments around the world that could impact our operations and ability to do business. We, and certain of our customers or suppliers, may continue to be impacted by government actions, orders and policies regarding the COVID-19 pandemic, including temporary closures of non-life sustaining businesses, shelter-in-place orders, and travel, social distancing and quarantine policies, the implementation and enforcement of which vary from state to state and within Colombia. While the Company expects the effects of the pandemic to negatively impact its results of operations, cash flows and financial position, the current level of uncertainty over the economic and operational impacts of COVID-19, due to the continued evolution of the COVID-19 pandemic and responses to curb its spread, means the ultimate related financial impact cannot be reasonably estimated at this time. Even after the COVID-19 pandemic has subsided, we expect to experience adverse impacts to our businesses as a result of the sustained global economic impact of COVID-19 and related policies.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was approved, which established the Paycheck Protection Program (PPP), which is administered by the U.S. Small Business Administration (SBA). On April 15, 2020, the Company, through its wholly owned subsidiary SI Systems, received approval for a $453,562 loan under the PPP. Under the terms of the CARES Act, PPP loan recipients can apply for, and be granted forgiveness for all or a portion of loans granted under the PPP. The Company applied for PPP loan forgiveness on November 3, 2020. The Company received notification of the forgiveness of the PPP loan and recorded it as other income for the year ended December 31, 2020.

On July 24, 2020, SI Systems received a $150,000 loan under the Economic Injury Disaster Loan (EIDL) program. Proceeds are to be used for working capital purposes. The EIDL Loan has a term of thirty years, and the interest accrues at the rate of 3.75% per annum. Installment payments, including principal and interest, are due monthly beginning July 22, 2022 (twenty-four months from the date of the execution of the promissory note for the EIDL Loan) in the amount of $731. The balance of principal and interest is payable thirty years from the date of the promissory note. The EIDL Loan is secured by a security interest on all of SI Systems' assets.

On August 14, 2020, SI Systems received a $15,000 grant via the Pandemic Protection Plan and the Northampton County Small Business Relief Fund. Northampton County has established a COVID-19 Relief Small Business Grant Program for businesses primarily operating in the county that have fewer than 100 employees. Grant funding may be used to cover payroll costs, costs related to continuation of group health care benefits, insurance premiums, mortgage and rent payments, utility bills, working capital to cover the costs of reopening businesses that were closed due to the pandemic, expenses related to meeting guidelines for reopening, and other COVID-19-related expenses not already covered by other federal, state, or regional grant and loan programs.

5) Issuer's Business, Products, and Services *(Continued)*

A. Summary of the issuer's business operations *(Continued)*

Recent Developments *(Continued)*

In January 2021, Ohana entered into purchase agreements for two residential properties in Las Vegas, Nevada, each for a purchase price of $900,000, consisting of an initial down payment of $150,000 and a promissory note for $750,000. For one of the properties, a down payment of $150,000 was due and paid by March 1, 2021 and a promissory note for $750,000 was executed. The interest rate on the promissory note is 0.0% and is to be repaid in eight equal installments of $93,750, with the first payment due on the first day of January 2022 and payments continuing the same day of each consecutive quarter, until October 1, 2023. For the second property, the earnest money deposit of $25,000 was made on October 8, 2021 and a down payment of $119,000 will be paid by December 1, 2021. The promissory note of $750,000 that was executed in January 2021 has an interest rate of 0.0% and is to be repaid in eight equal installments of $93,750, with the first payment due on the first day of January 2023 and payments continuing the same day of each consecutive quarter, until October 1, 2024.

Leticia Cardonick, former Chief Financial Officer of the Company, was released from the Company on October 28, 2021, and her duties were assumed by Deborah Mertz who returned to the Company as the Chief Financial Officer of the Company and its subsidiaries.

Foreign Currency Exchange Fluctuations

The Company is exposed to foreign currency exchange rate risk resulting from its operations in Colombia. Certain of the Company's revenues and expenses have been, and are expected to be, subject to the effect of foreign currency fluctuations, and these fluctuations may have a material adverse impact on the Company's operating results and asset values and could reduce stockholders' equity. The Company's financial results could be affected by factors such as changes in the foreign currency exchange rate or differing economic conditions in the Colombian markets as compared with the markets in the United States. The Company's earnings are affected by translation exposures from currency fluctuations in the value of U.S. dollar as compared to the Colombian peso.

Employee Retention Credit

Pursuant to the CARES Act, the Company is eligible for an employee retention credit subject to certain criteria. Since there is no US GAAP guidance for for-profit business entities that receive government assistance that is not in the form of a loan, an income tax credit or revenue from a contract with a customer, we determined the appropriate accounting treatment by analogy to other guidance. We accounted for the employee retention credit by analogy to International Accounting Standards (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance, of International Financial Reporting Standards (IFRS).

Under an IAS 20 analogy, a business entity would recognize the employee retention credit on a systematic basis over the periods in which the entity recognizes the payroll expenses for which the grant (i.e., tax credit) is intended to compensate when there is reasonable assurance (i.e., it is probable) that the entity will comply with any conditions attached to the grant and the grant (i.e., tax credit) will be received.

As of March 31, 2021, we have accounted for the $137,505 employee retention credit as other income on the consolidated statement of operations and as a receivable on the consolidated balance sheet.

B. Please list subsidiaries, parents, or affiliated companies

The Company has the following wholly owned subsidiaries: (1) SI Systems, LLC; (2) Ohana Home Services, LLC; and (3) ARK Investments, LLC. ARK Investments, LLC owns 80% of SEDC.

5) Issuer's Business, Products, and Services *(Continued)*

C. Describe the issuer’s principal products or services

For information regarding our principal products or services and their markets, please see Section 5.A. above.

6) Issuer's Facilities

Paragon Technologies, Inc.
101 Larry Holmes Drive, Suite 500
Easton, PA 18042

SI Systems leases a facility located at 101 Larry Holmes Drive in Easton, Pennsylvania. The area covered by the lease though April 30, 2020 was 9,648 square feet. The previous leasing agreement required fixed monthly payments of $14,400 through April 30, 2020. An addendum to the lease was executed on October 10, 2019, which was effective May 1, 2020 and pursuant to which the square footage was reduced to 5,628 square feet. The addendum period is six years from May 1, 2020 to April 30, 2026. It requires fixed monthly payments of $9,063 in year one and in each subsequent year the monthly payment increases by $250.

SI Systems believes that its Easton, Pennsylvania facility is adequate for its current operations. SI Systems' operations experience fluctuations in workload due to the timing and receipt of new orders and customer job completion requirements. Currently, SI Systems' facility is adequate to handle these fluctuations. In the event of an unusual demand in workload, SI Systems supplements its internal operations with outside subcontractors that perform services for SI Systems in order to complete contractual requirements for its customers. SI Systems will continue to utilize internal personnel and its own facility and, when necessary and/or cost effective, outside subcontractors to complete contracts in a timely fashion in order to address the needs of its customers.

On February 14, 2020, SI Systems executed a lease for warehouse space located at 1855 Weaversville Road in Allentown, Pennsylvania. The commencement date was March 15, 2020. The area covered by the lease is 4,989 square feet. The initial term is six years and there is a renewal term of one independent and successive period of five years. The lease requires fixed monthly payments of $3,198 in year one and in each subsequent year the monthly payment increases by approximately 2.00%.

On January 1, 2019, SEDC entered into a five-year lease agreement for a 44,530 square foot facility in Tocancipá (Cundinamarca) to serve as its new sales and administrative office and distribution facility. The monthly payment is the equivalent of approximately $13,560 USD.

SEDC also leased office #210 at 14707 South Dixie Highway in Palmetto Bay, Florida. The lease expired at the end of March 2021 and was not renewed. The monthly payment was $1,338. SEDC also leased one house in Colombia for the use of its President and General Manager for an aggregate monthly payment of the equivalent of approximately $921 USD. This lease expired mid-March 2021 and was not renewed.

In November 2020, SI Systems signed a new lease for office space in Las Vegas, Nevada commencing March 1, 2021. The lease has an initial term of one year at a cost of $1,461 per month for the first six months of the term and $1,827 per month for the remaining six months of the term.

7) Company Insiders (Officers, Directors, and Control Persons)

The following information is as of November 15, 2021, unless otherwise indicated.

Name of Officer/Director or Control Person	Affiliation with Company (e.g. Officer Title/Director/ Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership percentage of class outstanding	Note
Hesham M. Gad	Director, Chief Executive Officer & Owner of >5%	C/O Paragon Technologies 101 Larry Holmes Drive Suite 500 Easton, PA 18042	461,405	Common Stock	27.1%	
Donna Van Allen & Van Allen Investments	Owner of >5%	Winter Springs, Florida	367,000	Common Stock	21.5%	Share information as of March 24, 2021 and includes additional holders sharing the same address
Kevin Ting	Owner of >5%	Mission Viejo, CA	90,352	Common Stock	5.3%	Share information as of March 24, 2021
Deborah R. Mertz	Chief Financial Officer	C/O Paragon Technologies 101 Larry Holmes Drive Suite 500 Easton, PA 18042	20,000	Common Stock	1.2%	
Jack H. Jacobs	Director	C/O Paragon Technologies 101 Larry Holmes Drive Suite 500 Easton, PA 18042	5,740	Common Stock	0.3%	
Samuel S. Weiser	Director	C/O Paragon Technologies 101 Larry Holmes Drive Suite 500 Easton, PA 18042	5,740	Common Stock	0.3%	

7) Company Insiders (Officers, Directors, and Control Persons) *(Continued)*

Name, Other Positions or Offices With the Company and Principal Occupation for Past Five Years	Director Since	Age
Hesham M. Gad	2010	43

Hesham M. Gad has been Chief Executive Officer of the Company since June 2014, Chairman of the Company's Board of Directors since March 2012, and a director of the Company since 2010. From 2013 to 2017, Mr. Gad served as Chairman and CEO of SED International Holdings, Inc., a multinational distributor of IT and computing products.

Mr. Gad is the author of "The Business of Value Investing: Six Essential Elements to Buying Companies Like Warren Buffett." Mr. Gad is a graduate of the University of Georgia and the Stanford University Graduate School of Business Executive Program.

Jack H. Jacobs	2012	75

Jack H. Jacobs is the Melcher Family Senior Fellow of Politics and Professor of Humanities and Public Affairs at the United States Military Academy at West Point, where he has been teaching since 2005, and a principal of The Fitzroy Group, Ltd., a firm that specializes in the development of residential real estate in London and invests both for its own account and in joint ventures with other institutions, for over 20 years. He has served as an on-air military analyst for NBC News since 2002, where he was an Emmy nominee in 2010 and 2011. He was also a member of the team that produced the segment "Iraq: The Long Way Out," which won the 2011 Murrow Award. Colonel Jacobs was a co-founder and Chief Operating Officer of AutoFinance Group Inc., one of the firms to pioneer the securitization of debt instruments, from 1988 to 1989; the firm was subsequently sold to KeyBank. He was a Managing Director of Bankers Trust Corporation, a diversified financial institution and investment bank, where he ran foreign exchange options worldwide and was a partner in the institutional hedge fund business.

Colonel Jacobs' military career included two tours of duty in Vietnam where he was among the most highly decorated soldiers, earning three Bronze Stars, two Silver Stars, and the Medal of Honor, the nation's highest combat decoration. He retired from active military duty as a Colonel in 1987. Colonel Jacobs has been a member of the Board of Directors of Datatrak International, Inc. (OTCMKTS: DTRK) since 2016 and Resonant Inc. (Nasdaq: RESN) since 2018. From July 2018 to October 2020, Colonel Jacobs served as a member of the Board of Directors of Ballantyne Strong, Inc. (NYSE American: BTN); from 2007 to 2012, he served as a member of the Board of Directors of Xedar Corporation, a public company; from June 2006 to 2009, he was a director of Visual Management Systems, a private company; and he was a director of BioNeutral Group, Inc., a public company, until 2009. From October 17, 2013 to October 28, 2013, Colonel Jacobs served on the board of SED International Holdings, Inc. He was previously a director of Premier Exhibitions, Inc. Colonel Jacobs is a member of the Board of Trustees of the USO of New York. He is the author of the book "If Not Now, When?: Duty and Sacrifice in America's Time of Need." Colonel Jacobs received a Bachelor of Arts and a Master's degree from Rutgers University.

7) Company Insiders (Officers, Directors, and Control Persons) *(Continued)*

Name, Other Positions or Offices With the Company and Principal Occupation for Past Five Years	Director Since	Age
Samuel S. Weiser	2012	61

Samuel S. Weiser is currently the President and Chief Executive Officer of Foxdale Management LLC, a consulting firm founded by Mr. Weiser that provides operational consulting, strategic planning, and litigation support services in securities related disputes, which has been operating since 2003. He has served as the Chief Financial Officer of ALTSMARK, a software solution firm for the private capital sector, since January 2021. He is also the Founder and CEO of JMP OppZone Services, LLC, a fund administration and business support services firm focused exclusively on supporting investment activities in designated Opportunity Zones which were created as part of the Tax Cuts and Jobs Act of 2017 to drive investment into depressed areas of the country. JMP began operations in May 2019. From August 2009 until April 2015, he was a member of the Board of Directors and from August 2014 until April 2015 was Executive Chairman of Premier Exhibitions, Inc., a provider of museum quality touring exhibitions then listed on Nasdaq. In addition, Mr. Weiser served as President and Chief Executive Officer of Premier Exhibitions, Inc. from November 2011 until June 2014. Mr. Weiser was a member of SED International Holdings, Inc.'s Board of Directors from October 2013 until October 2014. Previously, Mr. Weiser served as a member and Chief Operating Officer of Sellers Capital LLC, an investment management firm, from 2007 to 2010. From 2005 to 2007, he was a Managing Director responsible for the Hedge Fund Consulting Group within Citigroup Inc.'s Global Prime Brokerage Division. Mr. Weiser also served as Chairman of the Managed Funds Association, a lobbying organization for the hedge fund industry, from 2001 to 2003 and was formerly a partner in Ernst and Young. He received his B.A. in Economics from Colby College and a M.A. in Accounting from George Washington University.

The directors of the Company hold their positions as directors until the next Annual Meeting of Stockholders.

The names, ages, and offices with the Company of its executive officers are as follows:

Name	Age	Office
Hesham M. Gad	43	Chief Executive Officer, Paragon Technologies
Deborah R. Mertz	65	Chief Financial Officer, Paragon Technologies

Deborah R. Mertz is an accounting professional with over 40 years' experience in both publicly held and privately held companies. From 2006 to 2013, Ms. Mertz held the position of Assistant Controller of ASSA ABLOY Inc. Americas Division. ASSA ABLOY is the largest global supplier of intelligent lock and security solutions. From 1999 to 2006, Ms. Mertz was the Controller/CFO of Sargent Manufacturing Company. Sargent Manufacturing Company is a wholly owned subsidiary of ASSA ABLOY Inc. and manufactures architectural hardware used primarily in commercial construction. Ms. Mertz held various other senior accounting positions. Ms. Mertz is a CPA and has a MBA from Rider University and a B.S. in Accounting from King's College.

8) Legal/Disciplinary History

A. Please identify whether any of the persons or entities listed above have, in the past 10 years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses).

   The executive officers and directors of the Company have not, in the past 10 years, been the subject of a conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses).

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended, or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities.

   The executive officers and directors of the Company have not, in the past 10 years, been the subject of the entry of an order, judgment, or decree, not subsequently reversed, suspended, or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities.

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated.

   The executive officers and directors of the Company have not, in the past 10 years, been the subject of a finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated.

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

   The executive officers and directors of the Company have not, in the past 10 years, been the subject of the entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

The Company has no information regarding beneficial owners of more than 5% of its common stock other than Mr. Gad, the Chief Executive Officer and the Chairman of the Company's Board of Directors.

8) Legal/Disciplinary History (continued)

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

There have been no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is a subject.

9) Third Party Providers

Please provide the name, address, telephone number, and e-mail address of each of the following outside providers:

Securities Counsel:

Name:	Derek D. Bork
Firm:	Thompson Hine LLP
Address 1:	3900 Key Center, 127 Public Square
Address 2:	Cleveland, Ohio 44114-1291
Phone:	(216) 566-5500
Email:	Derek.Bork@thompsonhine.com

Accountant or Auditor:

Name:	Danielle Preston
Firm:	RSM US LLP
Address 1:	518 Township Line Rd, Suite 300
Address 2:	Blue Bell, PA 19422
Phone:	(215) 641-8600
E-mail:	Danielle.Preston@rsmus.com

Investor Relations:

None.

Other Service Providers:

Provide the name of any other service provider(s) that assisted, advised, prepared, or provided information with respect to this disclosure statement. This includes counsel, broker-dealer(s), advisor(s) or consultant(s) that provided assistance or services to the issuer during the reporting period.

Name:	Jose Luis Salgado
Firm:	RSM Colombia
Nature of Services:	Statutory Auditor: Colombia
Address 1:	Avenida Calle 26 N 69D – 91
Address 2:	Of. 303 / 306 / 702A Torre Peatonal
Address 3:	Centro Empresarial Arrecife
Address 4:	Bogotá, Colombia
Phone:	+57 (1) 410 4122
E-mail:	jose.salgado@rsmco.co

10) Issuer Certification

Principal Executive Officer

I, Hesham M. Gad, Chief Executive Officer, certify that:

1. I have reviewed this quarterly disclosure statement of Paragon Technologies, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations, and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

November 15, 2021

/s/ Hesham M. Gad
Hesham M. Gad
Chief Executive Officer

Principal Financial Officer

I, Deborah R. Mertz, Chief Financial Officer, certify that:

1. I have reviewed this quarterly disclosure statement of Paragon Technologies, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations, and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

November 15, 2021

/s/ Deborah R. Mertz
Deborah R. Mertz
Chief Financial Officer

Paragon Technologies, Inc. and Subsidiaries

Quarterly Report

Consolidated Financial Statements - Unaudited

Nine Months Ended September 30, 2021

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Nine Months Ended September 30, 2021

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Paragon Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets (Unaudited)
September 30, 2021 and December 31, 2020
(In Thousands, Except Share Data)

	September 30, 2021	December 31, 2020
Assets		
Current Assets		
Cash and cash equivalents	**$ 4,248**	$ 3,355
Trade accounts receivables, net	**20,403**	18,099
Contract assets	**3**	403
Prepaid expenses and other current assets	**3,348**	2,873
Inventories		
Raw materials	**-**	127
Work-in-process	**161**	-
Finished goods	**18,368**	11,307
Total Current Assets	**46,531**	36,164
Property and Equipment		
Real estate	**2,400**	1,500
Machinery and equipment	**617**	845
Software	**487**	513
Land	**15**	17
Leasehold improvements	**281**	318
Capital additions in process	**108**	14
Total Property and Equipment	**3,908**	3,207
Accumulated depreciation	**(1,262)**	(1,227)
Property and Equipment, Net	**2,646**	1,980
Other Assets		
Marketable securities	**713**	545
Operating lease right of use assets, net	**2,308**	2,907
Intangible assets, net	**364**	414
Deferred tax asset	**497**	523
Total Other Assets	**3,882**	4,389
Total Assets	**$ 53,059**	$ 42,533

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets (Unaudited)
September 30, 2021 and December 31, 2020
(In Thousands, Except Share Data)

	September 30, 2021	December 31, 2020
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	**$ 22,334**	$ 15,790
Contract liabilities	**2,912**	1,847
Accrued salaries, wages, and commissions	**455**	473
Accrued product warranties	**103**	76
Income taxes payable	**1,744**	1,393
Accrued other liabilities	**2,469**	1,401
Operating lease liabilities	**1,065**	1,070
Bank loan, line of credit, net	**6,987**	6,699
Promissory note	**281**	-
Total Current Liabilities	**38,350**	28,749
Long-Term Liabilities		
Operating lease liabilities, net of current	**1,242**	1,832
SBA EIDL loan, net of current	**150**	150
Promissory note, net of current	**469**	-
Total Long-Term Liabilities	**1,861**	1,982
Total Liabilities	**40,211**	30,731
Commitments and Contingencies (Notes 1 and 9)		
Stockholders' Equity		
Common stock, $1 par value; authorized 4,000,000 shares; issued and outstanding 1,704,745 shares	**1,705**	1,705
Additional paid-in capital	**3,500**	3,500
Retained earnings	**7,390**	5,732
Accumulated other comprehensive loss	**(1,747)**	(739)
Total Paragon Technologies, Inc. and Subsidiaries Stockholders' Equity	**10,848**	10,198
Noncontrolling interest in subsidiary	**2,000**	1,604
Total Stockholders' Equity	**12,848**	11,802
Total Liabilities and Stockholders' Equity	**$ 53,059**	$ 42,533

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Operations (Unaudited)
For the Three and Nine Months Ended September 30, 2021 and 2020
(In Thousands, Except Share and Per Share Data)

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Net Sales	**$ 36,771**	$ 28,873	**$ 100,958**	$ 76,719
Cost of Sales	**33,217**	26,156	**92,416**	69,078
Gross Profit on Sales	**3,554**	2,717	**8,542**	7,641
Operating Expenses				
Selling, general, and administrative expenses	**1,440**	1,514	**4,265**	4,599
Product development costs	**5**	-	**8**	1
Total Operating Expenses	**1,445**	1,514	**4,273**	4,600
Operating Income	**2,109**	1,203	**4,269**	3,041
Other Income (Expense)				
Interest income	**2**	3	**8**	9
Interest expense	**(78)**	(127)	**(250)**	(515)
Employee retention credit	**-**	-	**138**	-
Realized gain (loss) on investment, marketable securities	**(10)**	(5)	**(404)**	39
Unrealized gain (loss) on investment, equity securities	**(107)**	67	**(25)**	1
Gain on sale of fixed assets	**-**	-	**1**	-
PPP loan forgiveness	**-**	-	**-**	10
Grant income	**26**	15	**43**	15
Total Other Income (Expense)	**(167)**	(47)	**(489)**	(441)
Income before taxes and noncontrolling interest	**1,942**	1,156	**3,780**	2,600
Income tax expense	**861**	393	**1,726**	923
Net income before noncontrolling interest	**1,081**	763	**2,054**	1,677
Net income attributable to noncontrolling interest	**189**	45	**396**	114
Net Income Attributable to Paragon Technologies Inc. and Subsidiaries	**$ 892**	$ 718	**$ 1,658**	$ 1,563
Basic and Diluted Income per Share	**$ 0.52**	$ 0.42	**$ 0.97**	$ 0.92
Weighted Average Shares Outstanding	**1,704,745**	1,704,745	**1,704,745**	1,704,745
Dilutive effect of stock options	**-**	-	**-**	-
Weighted Average Shares Outstanding Assuming Dilution	**1,704,745**	1,704,745	**1,704,745**	1,704,745

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Unaudited)
For the Three and Nine Months Ended September 30, 2021 and 2020
(In Thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2021	**September 30, 2020**	**September 30, 2021**	**September 30, 2020**
Net Income	**$ 1,081**	$ 763	**$ 2,054**	$ 1,677
Other Comprehensive Loss				
Foreign currency translation	**(333)**	(379)	**(1,008)**	(1,211)
Comprehensive Income	**$ 748**	$ 384	**$ 1,046**	$ 466

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the Nine Months Ended September 30, 2021 and the Years Ended December 31, 2020 and 2019
(In Thousands, Except Share and Per Share Data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance at January 1, 2019	1,694,745	$ 1,695	$ 3,500	$ 1,139	$ (872)	$ 1,103	$ 6,565
Net income	-	-	-	992	-	254	1,246
Net change in unrealized loss on debt securities, net of tax	-	-	-	-	359	-	359
Foreign currency translation	-	-	-	-	(28)	-	(28)
Stock grant to employee	10,000	10	-	-	-	-	10
Balance at December 31, 2019	1,704,745	1,705	3,500	2,131	(541)	1,357	8,152
Net income	-	-	-	3,601	-	247	3,848
Foreign currency translation	-	-	-	-	(198)	-	(198)
Balance at December 31, 2020	1,704,745	1,705	3,500	5,732	(739)	1,604	11,802
Net income	**-**	**-**	**-**	**1,658**	**-**	**396**	**2,054**
Foreign currency translation	**-**	**-**	**-**	**-**	**(1,008)**	**-**	**(1,008)**
Balance at September 30, 2021	**1,704,745**	**$ 1,705**	**$ 3,500**	**$ 7,390**	**$ (1,747)**	**$ 2,000**	**$ 12,848**

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended September 30, 2021 and 2020
(In Thousands)

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Cash Flows from Operating Activities		
Net income	**$ 2,054**	$ 1,677
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property and equipment	**286**	230
Amortization of intangible assets	**50**	51
Amortization of the right of use assets	**600**	(575)
Change in lease liability	**(595)**	558
Realized (gain) loss on investments	**404**	(39)
Unrealized (gain) loss on investments	**25**	(1)
Gain on sale of property and equipment	**(1)**	-
(Increase) decrease in assets		
Trade accounts receivables, net	**(2,304)**	(636)
Contract assets	**400**	(381)
Inventories	**(7,095)**	9,872
Prepaid expenses and other current assets	**(475)**	1,938
Increase (decrease) in liabilities		
Accounts payable	**6,544**	(12,354)
Contract liabilities	**1,065**	400
Accrued salaries, wages, and commissions	**(18)**	2
Income tax payable	**351**	(550)
Accrued product warranties	**27**	(4)
Accrued other liabilities	**1,068**	413
Net Cash Provided by Operating Activities	**2,386**	601
Cash Flows from Investing Activities		
Purchases of property and equipment	**(1,025)**	(109)
Proceeds from sale of property and equipment	**1**	-
Purchases of investments	**(1,965)**	(558)
Proceeds from sale of investments	**1,368**	527
Net Cash Used in Investing Activities	**(1,621)**	(140)
Cash Flows from Financing Activities		
Borrowings of bank loan, line of credit, net	**288**	2,170
Borrowings on promissory note	**750**	-
Net Cash Provided by Financing Activities	**1,038**	2,170

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended September 30, 2021 and 2020
(In Thousands)

	Nine Months Ended	
	September 30, 2021	**September 30, 2020**
Effect of Exchange Rates on Cash and Cash Equivalents	**(910)**	(1,054)
Increase in Cash and Cash Equivalents	**893**	1,577
Cash and Cash Equivalents at Beginning of Period	**3,355**	1,603
Cash and Cash Equivalents at End of Period	**$ 4,248**	$ 3,180
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for interest expense	**$ 250**	$ 477
Income taxes	**$ 255**	$ 456
Supplemental Disclosure of Noncash Investing Activities		
Mark to market on available for sale securities, gross	**$ -**	$ 1
Supplemental Disclosure of Noncash Operating, Investing, and Financing Activities		
Operating leases (Note 1)		

See accompanying notes to consolidated financial statements.

Note 1 - Description of Business and Summary of Significant Accounting Policies

Description of Business

Paragon Technologies, Inc. (Paragon) and its subsidiaries (collectively, the Company) engage in diverse business activities including material handling, distribution, and real estate services.

Automation

SI Systems, LLC (SI Systems) is a leading supply chain and logistics manufacturer and software engineering company providing solutions to distribution centers, manufacturers, and warehouses worldwide. SI Systems provides material handling solutions that increase productivity and provide safety enhancements. SI Systems' product lines include complete order fulfillment, assembly, and product advancing systems. SI Systems also offers subsystem technologies that are easily integrated with other solutions and provides software and services for automated material handling and order processing applications.

SI Systems has two major product lines. The Production and Assembly (PAS) product line consists of Towline conveyance and automated guided vehicles (AGVs), which are used in manufacturing of heavy industrial products and used in warehouses to move large products. The Order Fulfillment Solutions (OFS) product line represents order fulfillment technologies composed of the patented A-Frame and Mobile-Matic robotic picking systems. The OFS solutions support automated picking solutions that optimize clients' supply chain by reducing labor expenses, increasing order picking volume and significantly improving inventory fulfillment accuracy.

SI Systems' markets are diverse. SI Systems' customers and prospects represent leading manufacturer brands, and supply chain partners in the logistics services space. SI Systems sells its products directly and through integration partners.

Approximately 66% to 69% of SI Systems' business revenue was derived from new material handling system sales during the most recent three calendar years. The system sales are generally large contracts and SI Systems' dependence on these contracts can cause unexpected fluctuations in sales volume. Various external factors affect customers' decision-making process on expanding or upgrading their current production or distribution sites. SI Systems believes that its business is not subject to seasonality, although the rate of new orders can vary substantially from month to month. Since the Company recognizes revenue using a cost-to-cost method based on the continuous transfer of control to the customer over time for its systems contracts, fluctuations in SI Systems' sales and earnings occur with increases or decreases in major installations.

Distribution

SED International de Colombia, S.A.S. (SEDC) distributes IT hardware products from 27 top worldwide leading IT manufacturers such as Hewlett Packard, Lenovo, Dell, Samsung, LG, Epson, Hitachi, and others. SEDC's business is divided into four main business units: Value, Transactional, Consumer Electronics, and Integrated Services.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Distribution (continued)

The Value business unit focuses on enterprise sales and business projects, typically selling more specialized products that usually carry higher margins. The top products distributed by the Value unit include servers, workstations, storage, networking, high-end printers, high-end audio visual, and power protection systems.

The Transactional business unit focuses on the consumer business (retail resellers / e-tailers), as well as run rate products for Value Added Resellers selling to small and medium businesses. The top products distributed by the Transactional business unit include notebook computers, desktop computers, printers, projectors, gaming, and accessories.

The Consumer Electronics business unit began in July 2019 and covers a similar segment of the market as the Transactional business unit; however, the product profile is different. Although the Consumer Electronics business unit also focuses on resellers and e-tailers, the products distributed by this business unit are not IT products, but instead include televisions, sound bars, audio/visual equipment, video games, refrigerators, washers, dryers, microwaves, and cellular phones.

The services provided by the Integrated Services business unit include managed services, printing outsourcing, electronic documents management, electronic invoicing, and the internet of things as well as Hitachi high capacity storage solutions products.

Real Estate

Ohana Home Services, LLC (Ohana) acquires residential real estate for income and capital appreciation purposes. Ohana intends to lease its real estate to generate positive cash flow for the foreseeable future and may seek to monetize its real estate holdings during favorable market conditions.

Investments

Paragon also invests in businesses and securities under the Investment Management Policy. The Investment Management Policy sets forth the parameters and restrictions under which a portion of Paragon's cash balance may be invested in marketable securities, including U.S. Treasuries, equities of publicly traded companies, bonds, money market instruments, and other securities. Investment decisions under the parameters of the Investment Management Policy are made by Hesham Gad, Chairman and Chief Executive Officer.

Concentrations of Credit Risk

In the nine months ended September 30, 2021, the Company had one customer that individually accounted for 11.0% of sales. In the nine months ended September 30, 2020, the Company had one customer that individually accounted for 11.4% of sales.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk (continued)

As of September 30, 2021 and September 30, 2020, no customer individually accounted for greater than 10.0% of total trade accounts receivables.

The Company maintains its bank deposit accounts which, at times, may exceed insured limits at regulatory insured agencies. Investment balances are held in broker accounts and may be in excess of SIPC (Securities Investor Protection Corporation) limits.

Principles of Consolidation

The consolidated financial statements include the accounts of Paragon Technologies, Inc. and its wholly owned subsidiaries SI Systems, LLC (SI Systems); Ohana Home Services, LLC (Ohana); and ARK Investments, LLC (ARK). ARK owns 80% of SED International de Colombia, S.A.S. (SEDC).

Use of Estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The judgments made in assessing the appropriateness of the estimates and assumptions utilized by management in the preparation of the consolidated financial statements are based on historical and empirical data and other factors germane to the nature of the risk being analyzed. Materially different results may occur if different assumptions or conditions were to prevail. Estimates and assumptions are mainly utilized to establish the appropriateness of the inventory reserve, warranty reserve, deferred tax valuation allowance, and revenue recognition on fixed price contracts.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash on deposit, amounts invested on an overnight basis with a bank or broker/dealer, and other highly-liquid investments purchased with an original maturity of three months or less.

Trade Accounts Receivables and Allowance for Doubtful Accounts

Trade accounts receivables are stated at outstanding balances, less an allowance for doubtful accounts. For SI Systems, the allowance for doubtful accounts is determined by a specific identification of individual accounts. The Company writes off receivables upon determination that no further collections are probable. For SEDC, an allowance for doubtful accounts has been established based on collection experience and an assessment of the collectability of specific accounts. The overall determination of the allowance also considers credit insurance coverage and deductibles. SEDC maintains credit insurance, which protects the Company from credit losses exceeding certain deductibles (subject to certain terms and conditions). The allowance for doubtful accounts as of September 30, 2021 and December 31, 2020 was $143,655 and $123,203, respectively.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Inventories

For SI Systems, inventories primarily consist of materials purchased or manufactured for stock and for SEDC, inventories consist of finished goods. Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Certain SEDC vendors allow for either return of goods within a specified period (usually 45 to 90 days) or for credits related to price protection. However, for certain other vendors and inventories, the Company is not protected from the risk of inventory loss. Therefore, in determining the net realizable value of inventories, the Company identifies slow moving or obsolete inventories that (a) are not protected by vendor agreements from risk of loss and (b) are not eligible for return under various vendor return programs. Based upon these factors, the Company estimates the net realizable value of inventories and records any necessary adjustments as a charge to cost of sales. If inventory return privileges were discontinued in the future, or if vendors were unable to honor the provisions of certain contracts which protect SEDC from inventory losses, including price protections, the risk of loss associated with obsolete, slow moving, or impaired inventories would increase.

Marketable Securities

The Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, on January 1, 2018, which primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments.

Unrealized gains and losses for equity securities are included in earnings. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings.

The approximate fair value of equity securities as of September 30, 2021 and December 31, 2020 were as follows (in thousands):

	Equity Securities			
	Amortized Costs	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
September 30, 2021	**$ 618**	**$ 120**	**$ (25)**	**$ 713**
December 31, 2020	$ 423	$ 137	$ (15)	$ 545

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Marketable Securities (continued)

Fair value accounting guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2021 and December 31, 2020, were as follows (in thousands):

	Total Marketable Securities			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
September 30, 2021	**$ 713**	**$ 713**	**$ -**	**$ -**
December 31, 2020	$ 545	$ 545	$ -	$ -

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquired in business combinations are recorded at fair value; additions are recorded at cost. Property and equipment are depreciated on the straight-line method over the estimated useful lives of individual assets. The Company capitalizes costs incurred to develop commercial software products or enhancements to software products where such enhancement extends the life of the products. The ranges of lives used in determining depreciation rates for machinery and equipment and software is generally three to seven years and 15 years for real estate. Maintenance and repairs are charged to operations; betterments and renewals are capitalized. Upon sale or retirement of machinery and equipment, the cost and related accumulated depreciation are removed from the accounts and the resultant gain or loss, if any, is credited or charged to earnings.

Leases

The Company adopted ASU 2016-02, *Leases*, and all the related amendments (collectively Accounting Standards Codification (ASC) 842) on January 1, 2019 using a modified retrospective transition approach for all leases existing at January 1, 2019, the date of the initial application. Consequently, financial information will not be updated and disclosures required under ASC 842 will not be provided for dates and periods before January 1, 2019.

ASC 842 provides for a number of optional practical expedients in transition. The Company elected the practical expedients, which permitted the Company to not reassess prior conclusions about lease identification, lease classification, and initial direct costs under ASC 842. The Company did not elect the "use of hindsight" practical expedient to determine the lease term or in assessing the likelihood that a lease purchase option will be exercised, allowing it to carry forward the lease term as determined prior to adoption of ASC 842.

ASC 842 also provides practical expedients for an entity's ongoing accounting. The Company elected the short-term lease recognition exemption for all leases that qualify. A short-term lease is one with a term of 12 months or less, including any optional periods that are reasonably certain of exercise. For those leases that qualify, the exemption allows the Company to not recognize right-of-use (ROU) assets or lease liabilities, including not recognizing ROU assets or lease liabilities for existing short-term leases at transition. Short-term lease costs are recognized as rent expense on a straight-line basis over the lease term consistent with the Company's prior accounting. The Company also elected the practical expedient to not separate lease and non-lease components for all current lease categories.

The Company recognized operating lease liabilities of $1.15 million based on the present value of the remaining minimum rental payments determined under prior lease accounting standards and corresponding ROU assets of $1.15 million at adoption.

For arrangements where the Company is the lessor, the adoption of ASC 842 did not have a material impact on its consolidated financial statements as the majority of its leases are operating leases embedded within managed services contracts. ASC 842 provides a practical expedient for lessors in which the lessor may elect, by class of underlying asset, to not separate non-lease components from the associated lease component and, instead, to account for these components as a single component if both of the following are met: (a) the timing and pattern of transfer of the non-lease component(s) and associated lease component are the same and (b) the lease component, if accounted for separately, would be classified as an operating lease.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Leases (continued)

The accounting under the practical expedient depends on which component(s) is predominant in the contract. The Company has elected the above practical expedient and determined that the lease components are predominant and is accounting for the sublease per the guidance of ASC 842-30.

The Company leases certain office, factory, and warehouse space, land, and other equipment, principally under non-cancelable operating leases. The Company had no finance type leases as of the date of initial application, or at September 30, 2021 or December 31, 2020.

The Company determines if an arrangement is a lease at inception of the contract. The Company's key decisions in determining whether a contract is or contains a lease include establishing whether the supplier has the ability to use other assets to fulfill its service or whether the terms of the agreement enable the Company to control the use of a dedicated asset during the contract term. In the majority of the Company's contracts where it must identify whether a lease is present, it is readily determinable that the Company controls the use of the assets and obtains substantially all of the economic benefit during the term of the contract.

ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The Company's lease payments are typically fixed or contain fixed escalators. The Company has elected to not separate lease and non-lease components for all of its current lease categories; therefore, all consideration is included in the lease liabilities.

For the Company's leases that do not include an implicit rate, the Company uses its incremental borrowing rates based on the information available at the commencement date in determining the present value of future payments. The Company's incremental borrowing rates are based on the term of the lease, the economic environment of the lease, and the effect of collateralization.

The Company's lease terms range from one to six years and may include options to extend the lease or terminate the lease after the initial non-cancelable term. The Company does not include options in the determination of the lease term for the majority of leases as sufficient economic factors do not exist that would compel it to continue to use the underlying asset beyond the initial non-cancelable term.

Lease related assets and liabilities are separately identified on the consolidated balance sheets as operating lease right of use assets, net and operating lease liabilities.

The components of lease expense for the three months ended September 30, 2021 and 2020 were as follows (in thousands):

	2021	2020
Lease Expense		
Operating lease cost	**$ 288**	$ 302
Short-term lease cost	**2**	15
	$ 290	$ 317

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Leases (continued)

The components of lease expense for the nine months ended September 30, 2021 and 2020 were as follows (in thousands):

	2021	2020
Lease Expense		
Operating lease cost	**$ 847**	$ 489
Short-term lease cost	**11**	35
	$ 858	$ 524

Other information related to leases for the nine months ended September 30, 2021 and 2020 were as follows (in thousands):

	2021	2020
Supplemental Cash Flow Information		
Cash used for operating activities related to operating leases	**$ 815**	$ 514
Operating Lease Right of Use Assets Obtained in Exchange for Lease Liabilities		
Operating leases	**$ 376**	$ 1,184
Weighted Average Remaining Lease Terms (Years)		
Operating leases	**2.7**	3.6
Weighted Average Discount Rate		
Operating leases	**5.5%**	5.3%

Future lease payments as of September 30, 2021 were as follows (in thousands):

2021	**$ 278**
2022	**1,060**
2023	**745**
2024	**203**
2025	**168**
Thereafter	**49**
Total Lease Payments	**2,503**
Interest	**(196)**
Present Value of Lease Liabilities	**$ 2,307**

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Leases (continued)

Rental expense, net of sublease income, for the nine months ended September 30, 2021 and 2020 was $858 and $524, respectively (in thousands).

Intangible Assets

As a result of the acquisition of SEDC in 2017, intangible assets of a trade name and customer relationships were recognized at fair value, both of which have a useful life of ten years. The details of the intangible assets and the related amortization are shown in Note 5.

Long-Lived Assets

The Company reviews the recovery of the net book value of long-lived assets whenever events and circumstances indicate that the net book value of an asset may not be recoverable. In cases where undiscounted expected future cash flows are less than the net book value, an impairment loss is recognized equal to an amount by which the net book value exceeds the fair value of assets. There were no impairments recognized in the nine months ended September 30, 2021 or 2020.

Foreign Currency Translation

The financial statements of the foreign operations are measured in their local currency and then translated to U.S. dollars. All consolidated balance sheets accounts have been translated using the current rate of exchange at the consolidated balance sheets date or historical rates of exchange, as applicable. Results of operations have been translated using the average monthly exchange rates. Translation gains or losses resulting from the changes in exchange rates from year to year are accumulated in a separate component of stockholders' equity and are reported in the consolidated statements of comprehensive loss. Realized foreign currency transaction gains and losses are included in the accompanying consolidated statements of operations.

Revenue and Cost Recognition

The Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, and all the related amendments (collectively ASC 606) on January 1, 2018, using the full retrospective method that restates prior period consolidated financial statements presented. The restatement did not have a material impact on the consolidated financial statements.

The primary revenue sources for SI Systems are fixed price systems contracts, sales of parts or equipment, and individual support service contracts. SI Systems recognizes revenue using the following steps:

A. Identification of the contract with a customer;

B. Identification of the performance obligations in the contract;

C. Determination of the transaction price;

D. Allocation of the transaction price to the performance obligations in the contract; and

E. Recognition of revenue when, or as, performance obligations are satisfied.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

Revenue on a significant portion of SI Systems' contracts is recognized using a cost to cost method based on the continuous transfer of control to the customer over time. SI Systems transfers control for the system contracts, in two ways: (1) SI Systems' performance creates or enhances an asset that the customer controls as the customized asset is created or enhanced for the Towline brand and (2) SI Systems has an enforceable right to payment for both the Towline and Dispensing brands. The entire contract is the performance obligation. Typically, the Company would not sell the design, implementation, and installation individually. In addition, the warranty would not be sold separately and it is not a service agreement. The customer would not benefit from the individual good or service on its own. There is no alternative use for the customer.

The Company accounts for system contracts on an over time basis, electing an input method of estimated costs as a measure of performance completed. The selection of the measurement of progress using estimated costs was based on a thorough consideration of alternatives of various output and input measures, including contract milestones and labor hours. However, the Company has determined that other input and output measures are not an appropriate measure of progress as they do not accurately align with the transfer of control on its customized product solutions. The selection of costs incurred as a measure of progress aligns the transfer of control to the overall production of the customized system.

For systems contracts accounted for over time using estimated costs as a measure of performance completed, the Company relies on the estimates around the total estimated costs to complete the contract (Estimated Costs at Completion). Total Estimated Costs at Completion include direct labor, material, and subcontracting costs. Due to the nature of the efforts required to be performed to meet the underlying performance obligation, determining Estimated Costs at Completion may be complex and subject to many variables. The Company has a standard and disciplined quarterly process in which management reviews the progress and performance of open contracts in order to determine the best estimate of Estimated Costs at Completion. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion, the project schedule, identified risks and opportunities, and the related changes in estimates of costs. The risks and opportunities include management's judgment about the ability and cost to achieve the project schedule, technical requirements, and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of work to be performed, the availability and cost of material, and performance by subcontractors, among other variables. Based on this analysis, any quarterly adjustment to net sales or cost of sales, and the related impact on operation income, are recorded as necessary in the period they become known. When estimates of total costs to be incurred on a contract exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

Payment terms for system contracts include an initial payment at the time the contract is executed, with future payments dependent upon the completion of certain contract phases or targeted milestones. In the event of contract cancellation, SI Systems is entitled to payment for all work performed through the point of cancellation. Likewise, in the event of contract cancellation prior to earning revenue equal to or greater than the initial payment, SI Systems is generally not required to refund the unused portion.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

For SI Systems' revenue for sales of parts or equipment, the contract is the customer purchase order that outlines the transaction price. The performance obligation is the shipment of the products ordered by the customer, which aligns with SI Systems' standard sales terms that title to the goods transfers to the customer upon shipment of the items. Based on the simplified nature of these contracts, total revenue related to the sale is attributable to the satisfaction of the performance obligation, which occurs upon shipment.

SI Systems offers its Order Fulfillment customers support contracts. The support contracts cover a customer's single distribution center or warehouse where SI Systems' products are installed. As part of its support contracts, SI Systems provides analysis, consultation, and technical information to the customer's personnel on matters relating to the operation of its Order Fulfillment System and related equipment and/or peripherals. For SI Systems' revenue for individual support services, the contract is the customer purchase order that outlines the transaction price. Support contracts are prepaid and typically cover a one-year period. Revenue is recognized ratably over the course of the contract term. SI Systems is entitled to payment regardless of what level of support is required and regardless of the outcome. The performance obligation is related to the promise to have a resource available. In connection with the adoption of ASC 606, SI Systems analyzed the software support percentage of cost to revenue and based on historical trends, SI Systems determined support service (in the form of availability to the customer) is provided over the life of the contract and revenue should be recognized accordingly.

SEDC recognizes revenue from contracts with customers under ASC 606. The primary revenue source for SEDC revenue is distribution of IT hardware products.

SEDC recognizes revenue using the following steps:

A. Identification of the contract with a customer;

B. Identification of the performance obligations in the contract;

C. Determination of the transaction price;

D. Allocation of the transaction price to the performance obligations in the contract; and

E. Recognition of revenue when, or as, performance obligations are satisfied.

SEDC's revenues primarily result from the sale of various technology products and services. SEDC recognizes revenue as control of products is transferred to customers, which generally happens upon shipment. Products sold by SEDC are delivered via shipment from SEDC's facilities or by electronic delivery of keys for non-hardware products. SEDC considers customer purchase orders, which in some cases are governed by master agreements, to be the contracts with a customer. All revenue is generated from contracts with customers. The Company considers shipping as costs to fulfill the sales of products. Shipping revenue is included in net sales when control of the product is transferred to the customer, and the related shipping costs are included in cost of sales. Shipping is not considered a separate performance obligation, but is part of the product sales.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

For SEDC's integrated services contracts, the performance obligation is to lease equipment and related technology (e.g., antivirus software) for a specified number of months per the contract. The customer is invoiced monthly and revenue and the related cost are recognized in the same month. Therefore, there is no contract asset or liability related to the integrated services.

Taxes imposed by governmental authorities on the Company's revenue producing activities with customers, such as value added tax, are pass through amounts and are not recorded in the consolidated statements of operations.

The Company disaggregates its revenue from contracts with customers by geographic location, major product lines, and timing of revenue recognition. See details in the tables below for the three and nine months ended September 30, 2021 and 2020.

Disaggregation of Total Net Sales (in Thousands)

	Three Months Ended September 30, 2021			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 1,623	$ -	$ 21	$ 1,644
Latin America	4	35,105	-	35,109
Europe and Asia	18	-	-	18
	$ 1,645	$ 35,105	$ 21	$ 36,771
Major Goods/Service Lines				
Material handling systems	$ 946	$ -	$ -	$ 946
Software support	282	-	-	282
Parts and equipment	417	-	-	417
Transactional	-	25,493	-	25,493
Consumer electronics	-	4,633	-	4,633
Value	-	4,258	-	4,258
Services	-	721	-	721
Residential real estate rental income	-	-	21	21
	$ 1,645	$ 35,105	$ 21	$ 36,771
Timing of Revenue Recognition				
Goods transferred at a point in time	$ 417	$ 34,776	$ -	$ 35,193
Goods and services transferred over time	1,228	329	21	1,578
	$ 1,645	$ 35,105	$ 21	$ 36,771

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

Disaggregation of Total Net Sales (in Thousands) (continued)

	Three Months Ended September 30, 2020			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 2,616	$ -	$ 25	$ 2,641
Latin America	-	26,214	-	26,214
Europe and Asia	18	-	-	18
	$ 2,634	$ 26,214	$ 25	$ 28,873
Major Goods/Service Lines				
Material handling systems	$ 1,753	$ -	$ -	$ 1,753
Software support	219	-	-	219
Parts and equipment	662	-	-	662
Transactional	-	18,548	-	18,548
Consumer electronics	-	2,738	-	2,738
Value	-	3,469	-	3,469
Services	-	1,459	-	1,459
Residential real estate rental income	-	-	25	25
	$ 2,634	$ 26,214	$ 25	$ 28,873
Timing of Revenue Recognition				
Goods transferred at a point in time	$ 662	$ 25,533	$ -	$ 26,195
Goods and services transferred over time	1,972	681	25	2,678
	$ 2,634	$ 26,214	$ 25	$ 28,873

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

Disaggregation of Total Net Sales (in Thousands)

	Nine Months Ended September 30, 2021			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 4,786	$ -	$ 76	$ 4,862
Latin America	8	96,031	-	96,039
Europe and Asia	57	-	-	57
	$ 4,851	$ 96,031	$ 76	$ 100,958
Major Goods/Service Lines				
Material handling systems	$ 2,850	$ -	$ -	$ 2,850
Software support	826	-	-	826
Parts and equipment	1,175	-	-	1,175
Transactional	-	70,081	-	70,081
Consumer electronics	-	10,952	-	10,952
Value	-	12,021	-	12,021
Services	-	2,977	-	2,977
Residential real estate rental income	-	-	76	76
	$ 4,851	$ 96,031	$ 76	$ 100,958
Timing of Revenue Recognition				
Goods transferred at a point in time	$ 1,175	$ 95,097	$ -	$ 96,272
Goods and services transferred over time	3,676	934	76	4,686
	$ 4,851	$ 96,031	$ 76	$ 100,958

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

Disaggregation of Total Net Sales (in Thousands) (continued)

	Nine Months Ended September 30, 2020			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 7,553	$ -	$ 79	$ 7,632
Latin America	2	69,013	-	69,015
Europe and Asia	72	-	-	72
	$ 7,627	$ 69,013	$ 79	$ 76,719
Major Goods/Service Lines				
Material handling systems	$ 5,053	$ -	$ -	$ 5,053
Software support	583	-	-	583
Parts and equipment	1,991	-	-	1,991
Transactional	-	47,872	-	47,872
Consumer electronics	-	8,454	-	8,454
Value	-	10,459	-	10,459
Services	-	2,228	-	2,228
Residential real estate rental income	-	-	79	79
	$ 7,627	$ 69,013	$ 79	$ 76,719
Timing of Revenue Recognition				
Goods transferred at a point in time	$ 1,991	$ 67,860	$ -	$ 69,851
Goods and services transferred over time	5,636	1,153	79	6,868
	$ 7,627	$ 69,013	$ 79	$ 76,719

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

Contract Balances (in Thousands)

	September 30, 2021	December 31, 2020
Trade accounts receivables, net	**$ 20,403**	$ 18,099
Contract assets	**3**	403
Contract liabilities	**2,912**	1,847

Contract assets consist of amounts formerly classified as costs and estimated earnings in excess of billings where the Company does not yet have an unconditional right to bill. Contract liabilities consist of amounts formerly classified as billings in excess of costs and estimated earnings and unearned support contract revenue.

Payment terms on system contracts are typically tied to implementation milestones associated with progress on contracts while revenue recognition is over time based on a cost to cost method of measuring performance. The Company may recognize a contract asset or contract liability, depending on whether revenue has been recognized in excess of billings or billings in excess of revenue. The Company does not record a financing component to contracts when it expects, at contract inception, that the period between the transfer of a promised good or service and related payment terms is less than a year, applying practical expedients available under the accounting standards.

SI Systems records advance payments for unearned support contracts in the consolidated balance sheets as a contract liability that is in excess over amounts recognized as revenue at the end of each period. Revenue on individual support contracts is deferred and recognized on a straight-line basis over the one-year term of each individual support contract.

Revenue recognized during the three and nine months ended September 30, 2021, which was previously included in contract liabilities as of December 31, 2020, was $123 and $1,700, respectively (in thousands).

Revenue recognized during the three and nine months ended September 30, 2020, which was previously included in contract liabilities as of December 31, 2019, was $163 and $1,489 (in thousands), respectively.

There were no impairment losses recognized on customer receivables or contract assets during the nine months ended September 30, 2021 and 2020. SI Systems' contract costs include all direct material, subcontract and labor costs, and those indirect costs related to contract performance, including but not limited to costs such as indirect labor, supplies, tools, repairs, and depreciation. Selling, general, and administrative costs are charged to expense as incurred.

Product Development Costs

The Company expenses product development costs as incurred.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Accrued Product Warranty

SI Systems products are warranted against defects in materials and workmanship for varying periods of time depending on customer requirements and the type of system sold, with a typical warranty period of one year. SI Systems provides an accrual for estimated future warranty costs and potential product liability claims based upon a percentage of cost of sales, typically one and one-half percent of the cost of the system being sold. A detailed review of the liability needed for products still in the warranty period is performed each quarter.

A roll-forward of warranty activities is as follows (in thousands):

	Beginning Balance January 1	Additions (Reductions) Included in Cost of Sales	Claims	Ending Balance September 30
2021	**$ 76**	**$ 27**	**$ -**	**$ 103**
2020	71	(4)	-	67

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Income tax expense is the tax payable or refundable for the period, plus or minus the change during the period in deferred tax assets and liabilities.

Tax benefits for uncertain tax positions are recognized when it is more-likely-than-not that the position will be sustained upon examination based on its technical merits. The Company classifies interest and penalties related to unrecognized tax benefits as a component of income tax expense. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

U.S. Tax Reform: The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act reduced the U.S. Federal corporate tax rate from 35% to 21%, required companies to record and pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and created new taxes on certain foreign sourced earnings.

Under the Act, a policy election with respect to the Company's treatment of potential global intangible low-taxed income (GILTI) was required to be selected for fiscal year 2018. The Company elected to account for taxes on GILTI as incurred. There was no impact to the 2018 consolidated financial statements resulting from this election.

SI Systems is subject to U.S. Federal income tax, as well as income tax of multiple state jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal, state, and local income tax examinations by tax authorities for years before 2017.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

SEDC is no longer subject to income tax examinations for tax years ended before December 31, 2015. However, management and its tax advisors estimate that no significant differences may result from such contingent examinations that justify any additional accrual to cover the possibility of any expenses deemed as not allowed by the local tax authority.

Stock-Based Compensation

The Company has a stock-based compensation plan in place and records the associated stock-based compensation expense over the requisite service period. Restricted stock awards that are service-based are recorded as equity and amortized into compensation expense on a straight-line basis over the vesting period. These stock-based compensation plans and related compensation expense are discussed more fully in Note 6.

Earnings Per Share

Basic and diluted earnings per share for the three and nine months ended September 30, 2021 and 2020 are based on the weighted average number of shares outstanding.

Note 2 - Segment Information

Segment information for the nine months ended September 30, 2021 was as follows (in thousands):

	Automation	Distribution	Real Estate	Investments	Eliminations	Consolidated
Net sales to unaffiliated customers	$ 4,851	$ 96,031	$ 76	$ -	$ -	$ 100,958
Gross profit	$ 1,755	$ 6,711	$ 76	$ -	$ -	$ 8,542
Operating income (loss)	$ 426	$ 3,940	$ (97)	$ -	$ -	$ 4,269
Foreign currency transaction loss	$ -	$ (895)	$ -	$ -	$ -	$ (895)
Interest expense	$ (38)	$ (229)	$ -	$ -	$ 17	$ (250)
Interest income	$ -	$ 22	$ -	$ 3	$ (17)	$ 8
Investment loss	$ -	$ -	$ -	$ (429)	$ -	$ (429)
Income tax expense (benefit)	$ 61	1,665	$ -	$ -	$ -	$ 1,726
Net income (loss) attributable to Paragon Technologies, Inc. and Subsidiaries	$ 594	$ 1,587	$ (97)	$ (426)	$ -	$ 1,658
Total assets at September 30, 2021	$ 6,957	$ 43,723	$ 2,112	$ 713	$ (446)	$ 53,059

Note 2 - Segment Information (continued)

Segment information for the nine months ended September 30, 2020 was as follows (in thousands):

	Automation	Distribution	Real Estate	Investments	Eliminations	Consolidated
Net sales to unaffiliated customers	$ 7,627	$ 69,013	$ 79	$ -	$ -	$ 76,719
Gross profit	$ 2,863	$ 4,699	$ 79	$ -	$ -	$ 7,641
Operating income (loss)	$ 1,471	$ 1,618	$ (48)	$ -	$ -	$ 3,041
Foreign currency transaction loss	$ -	$ (1,211)	$ -	$ -	$ -	$ (1,211)
Interest expense	$ (41)	$ (483)	$ -	$ -	$ 9	$ (515)
Interest income	$ -	$ 14	$ -	$ 4	$ (9)	$ 9
Investment gain	$ -	$ -	$ -	$ 40	$ -	$ 40
Income tax expense	$ 413	$ 510	$ -	$ -	$ -	$ 923
Net income (loss) attributable to Paragon Technologies, Inc. and Subsidiaries	$ 1,110	$ 457	$ (48)	$ 44	$ -	$ 1,563
Total assets at September 30, 2020	$ 6,553	$ 30,753	$ 1,252	$ 380	$ (209)	$ 38,729

Note 3 - Bank Loan, Line of Credit, SBA EIDL Loan, and Promissory Note

During 2021 and 2020, the Company had a $750,000 line of credit facility with its principal bank to be used primarily for working capital purposes. The line of credit facility contains various nonfinancial covenants and is secured by all of the Company's trade accounts receivables and inventories. The availability on the line of credit was $750,000 as of September 30, 2021. Interest on the line of credit facility is based on the Wall Street Journal Prime Rate plus 1.00%. The outstanding borrowings were $-0- and $600,000 as of September 30, 2021 and December 31, 2020, respectively.

Note 3 - Bank Loan, Line of Credit, SBA EIDL Loan, and Promissory Note (continued)

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was approved, which established the Paycheck Protection Program (PPP), which is administered by the U.S. Small Business Administration (SBA). On April 15, 2020, the Company, through its wholly owned subsidiary SI Systems, received approval for a $453,562 loan under the PPP. Under the terms of the CARES Act, PPP loan recipients can apply for, and be granted, forgiveness for all or a portion of loans granted under the PPP. The Company applied for PPP loan forgiveness on November 3, 2020. The Company received notification of the forgiveness of the PPP loan and recorded it as other income for the year ended December 31, 2020.

The Company determined it was entitled to receive the PPP loan and that it qualified for the loan forgiveness. The amount requested was used to pay payroll costs to retain employees; business mortgage interest payments; and business utility payments. The dollar amount included payroll costs of 87% of the forgiveness amount which exceeded the 60% requirement. All required representations and certifications required by the Company were made.

The Company was unable to operate between February 15, 2020 and the end of the alternative payroll covered period of October 11, 2020 at the same level of business activity as before February 15, 2020 due to compliance with requirements established and guidance issued between March 1, 2020 and December 31, 2020 by the Governor of the State of Pennsylvania. The Company's office was shuttered from March 16, 2020 through June 8, 2020 and our employees were unable to visit customers and partners to generate new business. Supply chain delays caused project installation delays and pushed out customer invoicing dates. Some customers postponed major capital investments due to COVID-19 uncertainties.

The SBA has up to six years after it forgave the loan in December 2020 to audit whether the Company qualified for a PPP loan and met the conditions necessary for forgiveness of the loan.

In response to the COVID-19 pandemic, the SBA made small business owners eligible to apply for an Economic Injury Disaster Loan advance of up to $10,000 under its Economic Injury Disaster Loan program (EIDL). SI Systems applied for an EIDL loan and received a $10,000 loan advance on May 5, 2020 (EIDL Advance). As disclosed above, SI Systems also applied for and received a PPP loan. The EIDL Advance was offset against the portion of the PPP loan that qualified for forgiveness. On January 12, 2021, the Company was advised that the recent modifications to the PPP loan forgiveness rules by the SBA specify that EIDL loans will not reduce the amount of any PPP loan forgiveness retroactively for loans already forgiven and going forward. The Company received the remaining $10,000 of loan forgiveness during the second quarter of 2021.

Also in response to the COVID-19 pandemic, the SBA made small business owners eligible to apply for a loan of up to $150,000 under its EIDL program. SI Systems received a $150,000 loan under the EIDL (EIDL Loan) on July 24, 2020. Proceeds are to be used for working capital purposes.

The EIDL Loan has a term of thirty years, and the interest accrues at the rate of 3.75% per annum. Installment payments, including principal and interest, are due monthly beginning July 22, 2022 (twenty-four months from the date of the execution of the promissory note for the EIDL Loan) in the amount of $731. The balance of principal and interest is payable thirty years from the date of the promissory note. The EIDL Loan is secured by a security interest on all of SI Systems' assets. The outstanding borrowing was $150,000 as of September 30, 2021 and December 31, 2020.

Note 3 - Bank Loan, Line of Credit, SBA EIDL Loan, and Promissory Note (continued)

Future maturities on the EIDL loan are as follows for the years ended December 31:

2022	$ 2,500
2023	5,000
2024	5,000
2025	5,000
2026	5,000
Thereafter	127,500
	$ 150,000

SEDC currently maintains short-term working capital lines of credit at eight local banks as of September 30, 2021 and seven local banks as of December 31, 2020. Below is a detail of these lines as of September 30, 2021 and December 31, 2020:

September 30, 2021			Line of Credit		Borrowings		Availability	
Bank Name	Currency	Rate	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
Davivienda	Local	TBD	$ 3,000,000	$ 782,334	$ -	$ -	$ 3,000,000	$ 782,334
Bancoomeva	Local	IBR+1.35%	5,000,000	1,303,890	3,500,000	912,723	1,500,000	391,167
Bancolombia	Local	IBR+1.96%	12,000,000	3,129,335	4,714,967	1,229,559	7,285,033	1,899,776
BBVA	Local	IBR+1.64%	6,000,000	1,564,668	6,000,000	1,564,668	-	-
Scotiabank	Local	4.00%	10,000,000	2,607,780	3,400,000	886,645	6,600,000	1,721,135
de Bogota	Local	IBR+1.80%	3,400,000	886,645	854,775	222,907	2,545,225	663,738
AV Villas	Local	IBR+1.40%	3,000,000	782,334	2,497,744	651,357	502,256	130,977
de Occidente	Local	IBR+1.38%	9,000,000	2,347,002	5,825,425	1,519,142	3,174,575	827,860
			$ 51,400,000	$ 13,403,988	$ 26,792,911	$ 6,987,001	$ 24,607,089	$ 6,416,987

December 31, 2020			Line of Credit		Borrowings		Availability	
Bank Name	Currency	Rate	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
Davivienda	Local	TBD	$ 1,700,000	$ 495,266	$ -	$ -	$ 1,700,000	$ 495,266
Bancoomeva	Local	IBR+3.50%	4,000,000	1,165,331	2,000,000	582,666	2,000,000	582,665
Bancolombia	Local	IBR+3.00%	15,351,000	4,472,251	2,531,290	737,448	12,819,710	3,734,803
BBVA	Local	IBR+2.00%	2,000,000	582,666	1,333,333	388,444	666,667	194,222
Scotiabank	Local	5.00%	6,000,000	1,747,997	5,900,000	1,718,864	100,000	29,133
de Bogota	Local	IBR+2.20%	2,000,000	582,666	1,333,333	388,444	666,667	194,222
de Occidente	Local	IBR+3.20%	8,000,000	2,330,663	7,836,781	2,283,112	163,219	47,551
			$ 39,051,000	$ 11,376,840	$ 20,934,737	$ 6,098,978	$ 18,116,263	$ 5,277,862

SEDC also had an accounts receivables factoring credit agreement with one local bank as of September 30, 2021 and December 31, 2020. Below is the detail of the respective agreements.

September 30, 2021		AR Factoring Agreement		Borrowings		Availability	
Bank Name	Rate	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
AV Villas	TBD	$ 1,000,000	$ 260,778	$ -	$ -	$ 1,000,000	$ 260,778
		$ 1,000,000	$ 260,778	$ -	$ -	$ 1,000,000	$ 260,778

Note 3 - Bank Loan, Line of Credit, SBA EIDL Loan, and Promissory Note (continued)

December 31, 2020		AR Factoring Agreement		Borrowings		Availability	
Bank Name	Rate	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
de Occidente	TBD	$ 2,000,000	$ 582,666	$ -	$ -	$ 2,000,000	$ 582,666
		$ 2,000,000	$ 582,666	$ -	$ -	$ 2,000,000	$ 582,666

Indicador Bancario de Referencia (IBR) and Depositos a Termino Fijo (DTF) are market reference rates in the Colombian financial market. These rates are published daily by the Banco de la Republica. The rates that are TBD have no current borrowing activity. The rates are established at time of borrowing.

SEDC also had revolving credit agreements for factoring accounts payable from Hewlett Packard, Lenovo, and Epson with three local banks as of September 30, 2021 and December 31, 2020. The factoring agreements allow for 74 to 77 days' payment terms at 0% interest rate. If the 74 to 77 days are exceeded, interest will be charged at the prevailing market rate for the excess period. As of December 31, 2020, SEDC decided to transfer all available amounts under the agreements to short-term working capital lines of credit.

In January 2021, Ohana entered into two residential purchase agreements for two residential properties in Las Vegas, Nevada. For one of the properties, a down payment of $150,000 was due and paid by March 1, 2021 and a promissory note for $750,000 was executed. The interest rate on the promissory note is 0.0% with eight equal installments of $93,750 due on the first day of January 1, 2022 and continuing the same day of each consecutive quarter, until October 1, 2023. For the second property, the earnest money deposit and down payment of $144,000 will be paid by the close of escrow date of December 1, 2021. The promissory note of $750,000 that was executed in January 2021 has an interest rate of 0.0% with eight equal installments of $93,750 due on the first day of January 1, 2023 and continuing the same day of each consecutive quarter, until October 1, 2024. Amounts due within one year as of September 30, 2021 totaled $281,250.

Future maturities on these promissory notes are as follows for the years ended December 31:

2022	$ 375,000
2023	750,000
2024	375,000
	$ 1,500,000

Note 4 - Uncompleted Contracts

Costs and estimated earnings and billings on uncompleted contracts as of September 30, 2021 and December 31, 2020 were as follows (in thousands):

	September 30, 2021	December 31, 2020
Costs and estimated earnings on uncompleted contracts	$ 7,219	$ 4,984
Billings to date	(10,128)	(6,428)
	$ (2,909)	$ (1,444)

Note 4 - Uncompleted Contracts (continued)

	September 30, 2021	December 31, 2020
Included in accompanying consolidated balance sheets under the following captions		
Contract assets	**$ 3**	$ 403
Contract liabilities	**(2,912)**	(1,847)
	$ (2,909)	$ (1,444)

Note 5 - Intangible Assets

Intangible assets were as follows (in thousands):

	September 30, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade name	**$ 537**	**$ 246**	**$ 291**
Customer relations	**135**	**62**	**73**
	$ 672	**$ 308**	**$ 364**
	December 31, 2020		
Trade name	$ 537	$ 206	$ 331
Customer relations	135	52	83
	$ 672	$ 258	$ 414

Note 6 - Stock Options and Nonvested Stock

2012 Equity Incentive Plan

On July 27, 2012, the Board of Directors of the Company adopted the Paragon Technologies, Inc. 2012 Equity Incentive Plan (the Plan). Under the Plan, the Board of Directors may grant restricted stock, stock options, stock appreciation rights, and other equity-based awards to employees, directors, and consultants of the Company. Initially, there were 200,000 shares of the Company's common stock available for grant under the Plan. The Plan provides that it will be administered by the Board of Directors or a committee of the Board of Directors that may be designated in the future. The Plan has a term of ten years. On September 18, 2013, the Board of Directors increased the number of shares of common stock available for grant under the Plan to 350,000 shares.

Note 6 - Stock Options and Nonvested Stock (continued)

2012 Equity Incentive Plan (continued)

During the nine months ended September 30, 2021 and 2020, no shares were granted under the Plan, and no stock-based compensation expense was recognized.

The Equity Incentive Plan is set to expire on July 27, 2022, and the Board has no intention of creating a new equity incentive plan, nor any plans to award equity compensation between now and July 2022.

Note 7 - Employee Benefit Plans

The Company has a defined contribution Retirement Savings Plan (the Savings Plan) for its U.S. employees. Employees age 21 and above are eligible to participate in the Savings Plan. The Company matching contribution for the nine months ended September 30, 2021 and 2020 was $9,936 and $10,355, respectively. The Savings Plan also contains provisions for profit sharing contributions in the form of cash as determined annually by the Company's Board of Directors. There were no profit-sharing contributions for the nine months ended September 30, 2021 and 2020.

Note 8 - Income Taxes

The provision for income tax expense (benefit) for the nine months ended September 30 consisted of the following (in thousands):

	2021	2020
Federal		
Current	**$ 36**	$ 319
Deferred	**-**	-
	$ 36	$ 319
State		
Current	**$ 8**	$ 76
Deferred	**-**	-
	$ 8	$ 76
Foreign		
Current	**$ 1,682**	$ 528
Deferred	**-**	-
	$ 1,682	$ 528
	$ 1,726	$ 923

Note 8 - Income Taxes (continued)

The Company had no federal net operating losses at December 31, 2020. The Company had state net operating losses of approximately $1,716 (in thousands) at December 31, 2020, expiring at various times based on individual state limits.

Valuation allowances are provided to reduce the carrying amount of deferred tax assets when it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. When assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the appropriate taxing jurisdictions during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income in carryback years, and tax planning strategies in making this assessment. As of December 31, 2020 and 2019, based upon taxable income, a valuation allowance is only deemed appropriate on the unrealized loss on investments.

Note 9 - Contingencies

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of business. There were no pending actions as of September 30, 2021.

Note 10 - Stock Repurchase Program

On May 14, 2015, the Company's Board of Directors approved a program to repurchase up to $250,000 of its outstanding stock. There were no stock repurchases during the nine months ended September 30, 2021 and 2020.

Note 11 - Recent Accounting Pronouncement

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for public entities for fiscal years beginning after December 15, 2020, and for interim periods within those fiscal years. The Company adopted this standard in 2021 with no material impact on the Company’s consolidated financial statements.

Note 12 - Subsequent Events

Events and transactions for items that should potentially be recognized or disclosed in these consolidated financial statements occurring subsequent to the consolidated balance sheets date of September 30, 2021, have been evaluated through November 15, 2021, the date which these consolidated financial statements were available to be issued.

Leticia Cardonick, former Chief Financial Officer of the Company, was released from the Company on October 28, 2021, and her duties were assumed by Deborah Mertz who returned to the Company as the Chief Financial Officer of the Company and its subsidiaries.